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Guideposts for a Successful Farm Business

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Guideposts for a Successful Farm Business

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Not only the mastering of production techniques but also the art of using these techniques, together with the resources you control to produce maximum satisfaction and income, are the elements of a successful farm business.

WHAT MAKES a successful farm business? Production techniques are fairly easy to learn. But the art of using these techniques, together with the resources you control for maximum satisfaction and income, is what makes a successful farm business.

Your resources are land, labor, capital—consisting of feed, livestock, supplies, machinery, equipment and buildings—and managerial ability. Your supply of each of these resources is limited at any one time.

You have a different combination of these resources than any other farm operator has. You can gain control of land, labor and capital resources by renting, hiring, borrowing, buying or inheriting. The management resource is the one you gain through training, experience and environment. On most farms, managerial skill or lack of it probably limits success more than any other single factor.

Management Decisions

In any farm business, you are continually making management decisions. Many are day-to-day decisions; others are for a long period of time. As a basis for these decisions, you have your knowledge of the physical characteristics of the resources you have available—their cost and the expected return both in physical production and value—and a knowledge of your personal preferences and ability.

Not Enough . . .

It's not enough to know what kind of soil conditions give what kind of yield responses when fertilizer is added. In addition you need to know the cost of the fertilizer and equipment and labor needed to apply the fertilizer. And you must put a value on the resulting increased production to see

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whether the application will be profitable.

Management still would be simple if it stopped there. But there are other things to consider too. Would you get a greater return from using your resources in adding fertilizer than from using the same resources in some other part of your business?

Simple and Complex

Some management decisions are simple; others require a high degree of skill. Using your resources to buy a better variety of seed oats is a relatively simple management decision. The amount of grain to feed a herd of dairy cows to get the most income from your entire farm business (of which the dairy enterprise is only a part) is a more difficult decision.

What would be the risk and income possibilities if the resources used in your dairy enterprise were used for a beef cow herd or in a hog enterprise? This is even more complex. But, simple or complicated, such decisions must be made and are made in running a successful farm business.

Always Changing

An individual farm business is an always-changing, dynamic business. It changes with new technological developments—with changing price relationships of resources used and products sold—with variable weather conditions—and with the increasing skill of the operator as he gains experience and capital to work with.

In other words, the farm operator must continually question his managerial decisions. He must find out if there is any other combination of land, labor and capital that will use his managerial skill more effectively and give him a greater return than the combination being used.

Can machinery be substituted for labor to reduce costs or increase the value of a product? Would a different rotation give more total production from the farm? Can milk production be increased enough to cover the added feed costs when the amount of grain per cow is increased? Would it be more profitable to feed steers less grain and more roughage and use the grain saved in hog production? Would additional power pay for itself through higher production by getting the job done at the right time?

These are only examples of some of the many management decisions made in conducting a successful farm business. But they indicate the interrelationship of all parts of the business when management is put to the task of getting greatest income.

No Single Enterprise . . .

In farm businesses that are single-enterprise businesses, or so-called one-crop farms such as a tobacco farm or a cotton farm, the allocation of resources is relatively easy to figure out. Here in the Corn Belt, however, most of our farms have many enterprises. These enterprises are complementary, supplementary and competitive in terms of using physical resources and managerial ability. And our decisions are much more involved. *The basic management job is to decide how to use scarce resources in such combinations so as to give the greatest net return.*

Study Shows Reasons

A study of the 1951 farm records of 495 Iowa farms ranging in size from 140 to 260 acres (averaging 190 acres) indicates the major factors that characterized a successful farm business last year.

These 495 farms averaged 136 acres of intertilled crops, small grain and hay per farm. They produced $8,057 worth of feed per farm, processed most of it through livestock and produced $16,571 worth of livestock from the feed raised plus some purchased. The farms averaged 17.5 months of operator, family and hired labor in doing the job, had $3,900 of operating expenses and a net farm income of $7,600 per farm. (About half of the farms were tenant-operated, and the net income per farm includes the net income of both the landlord and the tenant on rented farms.)

Four Factors . . .

In making this study, we used four factors to measure various phases of the farm business: (1) *gross value of crops per crop acre* as a measure of the cropping system and yields; (2) *livestock increases per $100 of feed fed* as a measure of the success of the livestock enterprises; (3) *gross profits per man* as a measure of the volume of production per worker; and (4) *machinery and power costs per acre* as a measure of efficiency in the use of machinery, equipment and power.

We rated each of the 495 farms on these four factors as compared with the average of the farms of the same size and in the same area of the state as those from which the farm records were obtained.

To measure the effectiveness of using all of the resources available to the operator, we used the management return, rather than net farm income, as a measurement of profit. The management return is the amount left after charges for operator and unpaid family labor and interest on the equity in capital and land used are deducted from the net income. The management return on the 495 farms averaged $3,200 in 1951.

The Difference . . .

The table shows the difference in management returns between the farms with all four of the efficiency factors rating average or above and those with three, two, one and no efficiency factors rating average or above.

Returns Based Upon Number of Efficiency Factors Average or Above (495 farms, ranging from 140 to 260 acres in size, 1951)

Number of factors average or above	Number of farms	Management return
Four factors	44	$7,545
Three factors	135	5,690
Two factors	157	3,056
One factor	121	460
No factors	38	—1,355

Of the 495 farms, 44 rated average or above on all four factors, and 38 rated below average on all four factors. The 44 farms rating average or above on all four factors had a management return of $7,545 as compared with a management *loss* of $1,355 for the 38 farms rating below average on all four factors—a difference of $8,900.

The array of income from four factors average or above to all factors below average indicates that it was necessary to have a farm business relatively efficient in all segments to achieve high income under conditions as they were in 1951. On the other hand, the difference does not indicate the relative importance of the various efficiency factors in making managerial decisions.

Efficiency . . .

An indication of the relative importance of the four factors in 1951 is shown in the chart. Here, we grouped together all farms which had an average-or-above value of crops per crop acre—regardless of how they rated on the other three efficiency factors. We did the same for the farms which rated average or above in each of the other three factors. (In the case of machinery and power cost per acre, an average-or-above rating means the farm had an average or below-average cost per acre.)

We found little difference in profits between the farms with average or above crop returns and average or above feed returns. The farms that were average or above in gross profits per worker had a return of $5,582—or $423 above those with average-or-above feed returns and $635 above those with average-or-above crop returns. But the farms that rated average or above on machinery and power cost per acre, regardless of how they ranked on the three other factors, averaged a return of only $3,105—which was $2,477 below the average of the farms that were average or above in gross profits per man.

High-Level Production

Considering this information and remembering that it was obtained from farms above the state average in income and resources and under 1951 crop and price conditions, one fact stands out. *A high level of production per worker* as measured by gross profits per man was more important in determining the profitability of the farm business than holding machinery and power costs to a minimum.

High-level crop production and efficient livestock programs appear to carry about the same weight. But neither rates as high as the amount of production per worker. Still, both an efficient livestock program and high crop production rated higher than minimum machinery and power costs.

Its Meaning to You

The relative importance of the four factors—which in a broad way measure the efficiency of the use of land, labor and capital resources—is important to the farm operator in planning his farm business. The way the factors line up indicates that, if you have land resources that will give high production and the capital and ability to manage a livestock enterprise, volume of production per worker and above-average crop and livestock efficiency are more important than holding machinery costs to a minimum. Additional machinery costs that will assure high yields and timeliness and reduce labor requirements can increase profits under these conditions.

But if your land resources are such that you can't achieve high-level production even with added capital and management—or if a lack of capital or ability makes it impossible to achieve good livestock efficiency and high production per worker—then minimum machinery and power costs along with other minimum operating costs do become essential if you're to make top profits.

A Reasonable Goal

Enough production per worker to cover expenses and to provide a desirable level of living, security and some leisure time is a reasonable goal for a successful farm business. To achieve this goal, your business must have adequate volume, use scarce resources efficiently and be flexible enough to meet the changing economic conditions and the adoption of new techniques.

These are the elements of a successful farm business—not only the mastering of production techniques but also the art of using these techniques together with the resources you control to produce maximum satisfaction and income.

Relations of Returns to Various Efficiency Factors
(495 farms, ranging from 140 to 260 acres in size, 1951.)